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SUBJECT: China Southern Gets Called Up to the Majors with Membership  
in Sky Team

¶1. (U) Summary: China Southern has made it to the Big Leagues: it will soon become China's first carrier to join an international airline alliance as a full member of Sky Team. After considerable investment upgrading its operations and services, China Southern sees membership in the alliance as the perfect complement to its extensive network of domestic routes. Membership in Sky Team is indicative of the rising standards and increasing international competitiveness of China's airlines. End summary.

China Southern Suits Up  
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¶2. (U) China Southern will become China's first airline to join an international airline alliance when it becomes a member of Sky Team on November 15. Sky Team has ten member airlines, including Northwest, Delta, and Continental, as well as three associate airlines. China Southern, which is based in Guangzhou, will be the second Asian airline to join the alliance after Korean Air.

Getting in Shape for the Team  
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¶3. (SBU) China Southern has made substantial improvements in its operations and services in order to qualify for Sky Team. It adjusted its budget and financial management procedures and upgraded its information technology systems. China Southern executives told us that the upgrades cost the firm approximately RMB 300 million (US\$40 million), and it would take time to see return from the investment. One manager speculated that the benefits of joining Sky Team might not be apparent in the carrier's bottom line for three-to-five years.

Playing to Its Strengths  
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¶4. (U) She also said that joining the alliance fit perfectly into China Southern's growth strategy. China Southern is China's largest airline by fleet size and number of passengers carried, but its strength lies in its domestic routes. Air China, by contrast, earns more revenue than China Southern in part due to its more extensive international network. As part of Sky Team, China Southern will be able to attract more international travelers to its domestic routes and offer its Chinese customers more options for international travel.

## A Big Win for China's Airline Industry

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15. (U) China Southern's membership in Sky Team is an important milestone in the development of China's airline industry. Chinese aviation officials have pointed out that it shows China's airlines are becoming more competitive with international carriers in management and quality of service. China Southern sees the move as a key step in developing its international brand. China's other airlines will likely follow soon into other alliances.

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